

NEW APPLICATION**BEFORE THE ARIZONA CORPORATION COMMISSION****COMMISSIONERS**

ROBERT "BOB" BURNS - Chairman
BOYD DUNN
SANDRA D. KENNEDY
JUSTIN OLSON
LEA MÁRQUEZ PETERSON

In the matter of:)	DOCKET NO. S-21109A-20-0186
)	
Resa Wearables, Inc., a Delaware)	NOTICE OF OPPORTUNITY FOR HEARING
corporation,)	REGARDING PROPOSED, ORDER TO CEASE
)	AND DESIST, ORDER FOR RESTITUTION,
Glen D. Hinshaw, an unmarried man,)	ORDER FOR ADMINISTRATIVE PENALTIES,
)	AND ORDER FOR OTHER AFFIRMATIVE
Respondents.)	ACTION
)	

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondents Resa Wearables, Inc. and Glen D. Hinshaw have engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

The Division also alleges that Glen D. Hinshaw is a person controlling Resa Wearables, Inc. within the meaning of A.R.S. § 44-1999(B), so that he is jointly and severally liable under A.R.S. § 44-1999(B) to the same extent as Resa Wearables, Inc. for its violations of the antifraud provisions of the Securities Act.

I.**JURISDICTION**

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.

RESPONDENTS

2. Resa Wearables, Inc. ("Resa") is a corporation organized under the laws of the state of Delaware on February 3, 2017. Since February 27, 2017, Resa has been authorized to conduct business in Arizona with an Arizona place of business in Prescott, where Resa had an office and a production facility.

3. Since at least August 2016, Glen D. Hinshaw ("Hinshaw") has been an Arizona resident and an unmarried man. (Resa Wearables, Inc. and Glen D. Hinshaw may be referred to collectively as "Respondents").

4. Hinshaw has been the Chief Executive Officer of Resa since at least September 20, 2017. Hinshaw has been a signer on Resa's bank accounts since March 28, 2017.

III.

FACTS

5. Resa is a company that sold 3D printed custom insoles for shoes. From approximately late 2017 to October 2018, Resa operated roadshows consisting of kiosks that travelled between retail locations. The kiosks were points of sale for insoles and had equipment to scan customers' feet and 3D print custom insoles for them.

6. Resa raised capital by selling convertible notes and later stock to investors.

7. Resa sold convertible notes ("Convertible Notes") from June 29, 2017, to February 18, 2018, raising \$750,000 from 12 investments. The Convertible Notes promised a 6% interest rate and a one-year maturity date. The terms of the Convertible Notes state that they convert automatically to Resa stock if before the maturity date Resa sells a total of \$2,500,000 of stock, merges with another company, or sells substantially all of its assets. The terms of the Convertible Notes also state that a note does not actually mature until the investor requests repayment on or after the nominal maturity date and that Resa is not allowed to repay a Convertible Note without the investor's approval. Therefore, Convertible Note investors who wanted to convert their investment to stock had the right

1 to hold the notes as long as they wanted, waiting for an event that would trigger the stock conversion.
2 The Convertible Notes state that they are subject to securities laws.

3 8. Resa sold its stock ("Stock") from May 6, 2018, to September 18, 2018, raising
4 \$1,826,000 from 17 investments. Six of the Stock investments were made by investors who had
5 previously invested in the Convertible Notes a few months earlier.

6 9. Resa and Hinshaw often solicited potential investors in Prescott using a PowerPoint
7 presentation and sometimes provided potential investors a copy of the presentation and/or product
8 marketing materials. Hinshaw told potential investors about Resa, its technology, its products, its
9 marketing materials, and its presence in CostCo and other retailers.

10 10. Resa's PowerPoint presentation for investors described Resa's history, its product, its
11 business process, and its objective to expand its kiosk operation within CostCo. At least one version of
12 the investor presentation included projected kiosk revenue and included a biography of Hinshaw touting
13 his "over 30 years of experience in entrepreneurship, starting and operating successful businesses," but
14 failing to disclose any negative information about Hinshaw's background.

15 11. Some of Resa's investors were referred to Resa by the City of Prescott Economic
16 Development Office, which worked with a finder that Resa hired to identify potential investors. Resa
17 also recruited an investor who was not a licensed securities salesman or dealer to refer potential investors
18 to Resa in exchange for a commission. This investor referred approximately 40% of Resa's Convertible
19 Note investors and approximately 60% of Resa's Stock investors. Resa did not have any system to
20 supervise what potential investors were told about Resa.

21 **Failure to Disclose Prior Fraud Judgment Against Hinshaw**

22 12. Hinshaw was previously an investment advisor representative, and three of Hinshaw's
23 former investment advisory clients sued him in 2011, alleging that Hinshaw defrauded them by tricking
24 them into investing in a Ponzi scheme that Hinshaw controlled and used to pay himself extravagant
25 management fees. Hinshaw eventually stipulated to a \$2,800,000 judgment ("Judgment") against him
26 in favor of those former clients. Hinshaw has never made any payment toward this Judgment.

1 13. This \$2,800,000 Judgment was based on Hinshaw's false pretenses, false
2 representation, actual fraud, and/or materially false written statements with intent to deceive. The
3 Judgment was also based on fraud, defalcation, embezzlement, and/or larceny by Hinshaw. The
4 Judgment was also based on Hinshaw's violation of a Federal or state securities law, regulation, or
5 order and/or was based on common law fraud, deceit, and/or manipulation by Hinshaw in connection
6 with the purchase or sale of a security.

7 14. Hinshaw and Resa failed to disclose this \$2,800,000 fraud Judgment to some or all of
8 Resa's investors. Hinshaw did not disclose this judgment even to Resa's in-house attorney, who was
9 responsible for drafting Resa's investment documents and disclosures. When an investor eventually
10 did learn that there was a judgment against Hinshaw, Hinshaw lied to the investor and claimed the
11 judgment resulted from a divorce.

12 **Failure to Disclose Resa's Overdue Purchase Order Payments**

13 15. Resa had a manufacturing agreement with a company that manufactured Resa's
14 roadshow kiosks. The agreement was exclusive and forbade Resa from using any other company to
15 manufacture any products, including kiosks, for the North American market. The agreement also
16 gave the manufacturer's president a seat on Resa's board of directors. The agreement required Resa
17 to pay for each kiosk within seven days of submitting a kiosk purchase order to the manufacturer.
18 The agreement also entitled Resa to \$833,000 worth of kiosks in exchange for Resa stock. By the
19 end of May 2018, Resa had far exceeded the \$833,000 limit of paid-for kiosks. By the end of June
20 2018, Resa had not fully paid the manufacturer for all purchase orders within 7 days, thus violating
21 the payment terms of its exclusive manufacturing agreement.

22 16. Hinshaw and Resa failed to disclose these overdue purchase order payments to at least
23 one investor that they solicited to invest.

24 17. Resa's overdue purchase order payments were soon devastating for Resa when the
25 manufacturer sued in October 2018 for Resa's failure to pay. The lawsuit forced Resa to end its kiosk
26 roadshow and lay off most of its staff. The lawsuit also scuttled a pending \$5,000,000 investment

1 and prevented Resa from raising further investments. Resa now cannot afford to resume its kiosk
2 roadshow.

3 **IV.**

4 **VIOLATION OF A.R.S. § 44-1991**

5 **(Fraud in Connection with the Offer or Sale of Securities)**

6 18. In connection with the offer or sale of securities within or from Arizona, Respondents
7 directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue statements
8 of material fact or omitted to state material facts that were necessary in order to make the statements
9 made not misleading in light of the circumstances under which they were made; or (iii) engaged in
10 transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon
11 offerees and investors. Respondents' conduct includes, but is not limited to, the following:

- 12 a) Hinshaw and Resa omitted to tell some or all investors that Hinshaw had a
13 \$2,800,000 fraud judgment against him; and
14 b) Hinshaw and Resa omitted to tell at least one investor about Resa's overdue
15 purchase order payments to its exclusive manufacturer.

16 19. This conduct violates A.R.S. § 44-1991.

17 **V.**

18 **CONTROL PERSON LIABILITY PURSUANT TO A.R.S. § 44-1999**

19 20. From at least September 20, 2017, to the present, Hinshaw has been and/or held
20 himself out as the Chief Executive Officer of Resa.

21 21. From at least September 20, 2017, to the present, Hinshaw directly or indirectly
22 controlled Resa within the meaning of A.R.S. § 44-1999. Therefore, Hinshaw is jointly and severally
23 liable to the same extent as Resa for its violations of A.R.S. § 44-1991 from at least September 20,
24 2017, to the present.

VI.

REQUESTED RELIEF

The Division requests that the Commission grant the following relief:

1. Order Respondents to permanently cease and desist from violating the Securities Act pursuant to A.R.S. § 44-2032;
2. Order Respondents to take affirmative action to correct the conditions resulting from Respondents' acts, practices, or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-2032;
3. Order Respondents to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;
4. Order any other relief that the Commission deems appropriate.

VII.

HEARING OPPORTUNITY

Each respondent may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. **If a Respondent requests a hearing, the requesting respondent must also answer this Notice.** A request for hearing must be in writing and received by the Commission within 10 business days after service of this Notice of Opportunity for Hearing. The requesting respondent must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at <http://www.azcc.gov/divisions/hearings/docket.asp>.

If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. If a request for a hearing is not timely made the Commission may, without a hearing, enter an order granting the relief requested by the Division in this Notice of Opportunity for Hearing.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Carolyn D. Buck, ADA Coordinator, voice phone number (602) 542-3931, e-mail cdbuck@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation. Additional information about the administrative action procedure may be found at:

<http://www.azcc.gov/divisions/securities/enforcement/AdministrativeProcedure.asp>.

VIII.

ANSWER REQUIREMENT

Pursuant to A.A.C. R14-4-305, if a Respondent requests a hearing, the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at <http://www.azcc.gov/divisions/hearings/docket.asp>.

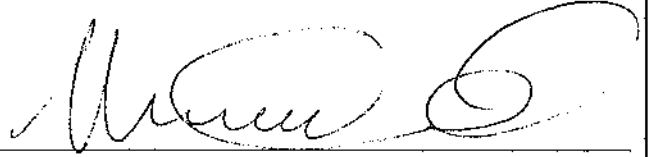
Additionally, the answering respondent must serve the Answer upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007, addressed to Paul Kitchin.

The Answer shall contain an admission or denial of each allegation in this Notice and the original signature of the answering respondent or respondent's attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial of an allegation. An allegation not denied shall be considered admitted.

When the answering respondent intends in good faith to deny only a part or a qualification of an allegation, the respondent shall specify that part or qualification of the allegation and shall admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

1 The officer presiding over the hearing may grant relief from the requirement to file an Answer
2 for good cause shown.

3 Dated this 26th day of June, 2020.

A handwritten signature in black ink, appearing to read 'Mark Dinell', written over a horizontal line.

Mark Dinell
Director of Securities